ADAIR COUNTY FISCAL COURT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

JONES

CERTIFIED PUBLIC ACCOUNTANTS

RITCHIE, PSC 2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ◆ (859) 269-1949

ADAIR COUNTY ANN MELTON, COUNTY JUDGE/EXECUTIVE FISCAL COURT AUDIT

For The Year Ended June 30, 2006

Jones & Ritchie, PSC has completed the audit of the Adair County Fiscal Court for the year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Adair County, Kentucky.

Financial Condition:

The County had net assets of \$5,652,697, which included \$678,628 of unrestricted net assets, in its governmental activities as of June 30, 2006. In its business-type activities, cash and cash equivalents were \$49,370 with total net assets of \$57,475. Total debt principal as of June 30, 2006, was \$880,217 with \$213,288 due within the next year.

Report Comment:

2006 – 1 The County Should Budget For All Road Fund Expenditures.

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JONES



CERTIFIED PUBLIC ACCOUNTANTS

2024 Shadybrook Lane. Lexington, KY 40502 (859) 269-1949

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ann Melton, Adair County Judge/Executive
Honorable Jerry Vaughan, Former Adair County Judge/Executive
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adair County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Adair County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Adair County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type-activities, each major fund, and aggregate remaining fund information of Adair County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
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Members of the Adair County Fiscal Court
(Continued)

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County, Kentucky's basic financial statements. The accompanying supplementary information, which consists of combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated April 29, 2008, on our consideration of Adair County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying Comment and Recommendation, included herein, which discuss the following report comment:

2006 – 1 The County Should Budget For All Road Fund Expenditures.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC Certified Public Accountants

April 29, 2008

ADAIR COUNTY OFFICIALS

June 30, 2006

Fiscal Court Members:

Jerry Vaughan County Judge/Executive

Roger Stephens Magistrate

Wid Harris Magistrate

Tony Loy Magistrate

J. M. Shelley Magistrate

Junior Brown Magistrate

Joe Rogers Commissioner

Terry Farris Commissioner

Other Elected Officials:

Jennifer Hutchison-Corbin County Attorney

William Knight Jailer

Ann Melton County Clerk

Steve Cheatham Sheriff

Dennis Loy Circuit Court Clerk

William Feese, Jr. Property Valuation Administrator

Rick Wilson Coroner

Appointed Personnel:

Larry Dudley County Treasurer

Gale Cowan Deputy Judge/Executive

Lisa Lee Personnel/Payroll Clerk

Jobie Darnell Road Supervisor

Mary Allender 911 Administrator

Note: List of officials who were in office as of June 30, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adair County Management's Discussion and Analysis

June 30, 2006

The financial management of Adair County, Kentucky, offers readers of Adair County's financial statements this narrative overview and analysis of the financial activities of Adair County for the year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on any significant financial issues and activities, to identify any significant financial issues and activities, and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmittal and the notes to the financial statements.

Financial Highlights

The Statement of Net Assets shows \$822,998 in current assets and \$5,767,391 in non-current assets. Current assets consist of cash and cash equivalents while non-current assets consist of capital assets (land, land improvements, vehicles, buildings, equipment, infrastructure, etc.), net of accumulated depreciation. Liabilities of the Fiscal Court are current liabilities due within one year of \$213,288 and non-current liabilities due in more than one year of \$666,929. Net assets are \$5,710,172. From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows governmental activity general revenues of \$1,411,509 for fiscal year 2006. The majority of revenues were property tax assessments and motor vehicle taxes and licenses.

The fund financial statements show the inflow and outflow of cash receipts and cash disbursements. The Statement of Revenues, Expenditures and Changes in Fund Balances shows that total revenues of \$4,425,553 were exceeded by total expenditures of \$4,813,965 for a net decrease in fund balance of \$233,412.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Adair County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Adair County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Adair County's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of Adair County.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Overview of the Financial Statements (Continued)

Government-wide Financial Statements (Continued)

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

As a result certain assets and their related revenues (such as amounts billed for services provided, but not collected), accounts payable (expenses for goods and services received but not paid), and compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Adair County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, airport, capital projects, debt services, and administration. The County has one business-type activity – operation of a jail canteen.

The government-wide financial statements include only Adair County (known as the primary government). If the County had any legally separate entities with which it had significant operational or financial relationship, they would be included.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Adair County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Adair County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, *governmental fund* financial statements focus on current inflows and current outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Overview of the Financial Statements (Continued)

Governmental Funds (Continued)

Adair County maintains nine individual governmental funds. Information is presented separately for the major funds (General Fund, Road Fund, Jail Fund, and Local Government Economic Assistance Fund) and is combined for the non-major funds (Forest Fire Protection Fund, Recycling Fund, Enhanced 911 Fund, Sheriff Vehicle Fund, and Green River Animal Shelter Fund) in the governmental Balance Sheet and the governmental Statement of Revenue, Expenditures and Changes in Fund Balances.

Adair County adopts an annual appropriated budget. A budgetary comparison statement is provided for the General Fund, Road Fund, Jail Fund, and the Local Government Economic Assistance Fund to demonstrate compliance with their budgets.

Proprietary Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund, which is considered to be a major fund of Adair County.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the County as a Whole

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Financial Analysis of the County as a Whole (Continued)

Net Assets (Continued)

Comparative Financial Statements

Table 1
Adair County's Net Assets

	9	Government	al A	ctivities		Busine	SECTION SEC	50、312年13年3月18日2日本海洋区		<u>To</u>	tal	
		<u>2005</u>		<u>2006</u>		<u>2005</u>		2006		<u>2005</u>		2006
												au con A
Assets Current and							tsiabi i		ed H			
other	•	047.000	•	770 000	•	50.400	•	40.070	•	070 000	•	000 000
assets Capital	\$	917,600	\$	773,628	\$ 1441	58,422	\$	49,370	\$ #### #4	976,022	\$	822,998
assets		4,492,118		5,759;286		9,403		8,105		4,501,521		5,767 391
Total assets	\$	5,409,718	\$	6,532,914	\$	67,825	\$	57,475	\$	5,477,543	\$	6,590,389
											erina F Karal	
Liabilities Current and												
other	•	101 510	•	040.000			•		•	101510		040.000
liabilities Long-term	\$	104,510	\$	213,288	\$ [7]	Politica	\$		\$ 2000 G	104,510	\$	213,288
liabilities		740,295		666,929						740,295		666,929
Total liabilities	ø	044 005	\$	000 017	æ		\$		\$	044 005	\$	880,217
liabilities	\$	844,805	⊅ Mai	880,217	\$		J.		Ф	844,805	Ф []	000,217
Net Assets										1944 F.		
Invested in capital												
assets, net												
of related debt	\$	3,647,313	\$	4,974,069	\$	9,403	\$	8,105	\$	3,656,716	\$	4,982,174
Restricted	Ψ	3,047,313		4,574,005 F. 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Ψ E	9,400	ψ Min					4,902,174
for grants		135,000					EX			135,000		
Unrestricted		782,600	_	678,628		58,422		49,370	_	841,022	_	727,998
Total net		4 564 636	. S	F 6F0 607	6	67.005		E7375	•	4 623 733		E 710 170
assets	\$	4,564,913	r D	5,652,697	, D	67,825	\$.	57,475	.	4,632,738		5,710,172

Financial Analysis of the County as a Whole (Continued)

Comparative Financial Statements (Continued)

Table 2
Adair County's Statement of Activities
Governmental Activities

	2005	± <u>2006</u>	<u>Variance</u>	Percent Change
Revenues: General	\$ 1,332,677	\$ 1,411,509	, 78 832	5.9%
Charges for services	679,766	686,776	7,010	1.0%
Operating grants Capital grants and	2 083 609	December 1999 London Control of Service Co	61.749	3.0%
contributions · Total	28,331 \$ 4,124,383	181,910 \$ 4,425,553	153,579 \$ 301,170	542.0% 7.3%
Expenses				
General government	\$ 1,119,135	\$ 1,253,194	\$ 134,059	12.0%
Protection to persons and property	858,612		75,048	8.7%
General health and sanitation Social services	47,861 2,767	97,671 1,167	49,810 (1,600)	104.1% (57.8%)
Recreation and culture	8,506	3,627	(4,879)	(57.4%)
Roads	937,891	990,772	52,881	5.6%
Airport	7,700	7,700		
Debt service (interest): Total	\$ 3,028,579	\$ 3,337,769	\$ 309,190	10.2%
lotal	\$ 3,028,579	= \$ <u>3,337,769</u>	309,190	10.2%

Financial Analysis of the County's Funds

As noted earlier, Adair County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds Overview. The focus of Adair County's governmental funds is to provide information on current inflows, current outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has four major governmental funds as follows:

- 1. The **General Fund** is the chief operating fund of Adair County. As of June 30, 2006, the General Fund had a fund balance of \$372,191, all of which was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 28% of total fund expenditures. The fund balance of Adair County's General Fund decreased by \$288,663 during the June 30, 2006 fiscal year.
- 2. The **Road Fund** accounts for the County's construction and maintenance of its roads and bridges. The Road Fund had \$151,638 in fund balance at June 30, 2006. The County received \$1,449,501 from County Road Aid, which accounts for approximately 81% of the County's road fund revenues. The fiscal year 2006 expenditures for road materials were \$1,564,292.
- 3. The **Jail Fund** is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2006 of \$14,421, all of which was unreserved. This represents a decrease in fund balance of \$43,199 over the previous fiscal year end. The Jail Fund received \$641,077 from intergovernmental sources, which accounts for 82% of the jail fund revenue.
- 4. The **Local Government Economic Assistance Fund** had a fund balance of \$89,304 at June 30, 2006, representing an increase of \$11,079 over the previous fiscal year end.

The County has five non-major governmental funds: Forest Fire Protection Fund, Recycling Fund, Enhanced 911 Fund, Sheriff Vehicle Fund and Green River Animal Shelter Fund. Total revenues were \$401,542, total expenditures were \$659,178 and net transfers in were \$249,964.

Proprietary Fund Overview. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital items.

The county has one business-type fund: the **Jail Canteen Fund**. The Jail Canteen Fund operations are authorized by KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits that are generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Financial Analysis of the County's Funds (Continued)

The Jail Canteen Fund had net assets of \$57,475 as of June 30, 2006 and a cash balance of \$49,370 as of June 30, 2006.

General Fund Budgetary Highlights

The County's General Fund budget was amended during the fiscal year resulting in a total increase of \$400,512. Budget amendments were made to various expenditures due to surplus cash carried forward and an increase in intergovernmental revenue. Actual revenues exceeded budgeted revenues, as amended, by \$137,956.

Capital Assets and Debt Administration

Capital Assets. Adair County's investment in capital assets and infrastructure assets for its governmental and business-type activities as of June 30, 2006, was \$5,767,391 (net of accumulated depreciation). This investment in capital assets and infrastructure assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure additions.

Major capital asset events during the 2006 fiscal year included the construction of buildings costing \$380,876 and the construction cost of infrastructure assets in the amount of \$540,539.

Additional information on the County's capital assets can be found in Note 3 to the financial statements and in Table 3.

Table 3
Adair County's Capital Assets, Net of Accumulated Depreciation

	Governmental	Activities	Business <u>Activiti</u>	Delicination of the Property of the Control of the	<u>Tota</u>	1
Land * \$	<u>2005</u>	2006 1,073,596 \$	<u>2005</u>	<u>2006</u>	<u>2005</u> 955,000 \$	2006 1\073,596
Buildings	2,192,445	2,529,716		er loederver wes	2,192,445	2,529,715
Other equipment " Vehicles and	184,441	322,846	9.403	8,105	193,844	330,951
equipment Infrastructure assets	127,670 990,788	216,015 1,512,484			127,670 990,788	216,015 1,512,484
Construction in progress Total net capital assets \$	41,774 4,492,118 \$	104,629 5,759,286	9,403	8 105 \$	41,774 4,501,521	104,630 5,767,391

Capital Assets and Debt Administration (Continued)

Debt Administration. At the end of the 2006 fiscal year, Adair County had total debt outstanding of \$880,217. Additional information can be found in the Note 4 and 6 to the basic financial statements.

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget.

- The 2007 fiscal year adopted budget continues most services at current levels except when federal or state funding is decreased or when projects have been completed or are nearing completion.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for County programs. The Fiscal Court may decide to alter the operation or funding of County operations impacted by State revenue shortfall.

Requests For Information

This financial report is designed to provide a general overview of Adair County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Adair County Fiscal Court, 424 Public Square, Suite 1, Columbia, Kentucky 42728.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Adair County Statement of Net Assets - Modified Cash Basis

June 30, 2006

	Primary Government							
	•	Govern- mental Activities		Business- type Activities		Total		
Assets	•		-		_			
Current assets:								
Cash and cash equivalents	\$	684,188	\$	49,370	\$	733,558		
Assets held for sale	-	89,440	-		_	89,440		
Total current assets	\$.	773,628	\$ _	49,370	\$_	822,998		
Non-current assets:								
Capital assets (net) -								
Land	\$	1,073,596	\$		\$	1,073,596		
Buildings		2,529,716				2,529,716		
Vehicles and equipment		216,015				216,015		
Other equipment		322,846		8,105		330,951		
Infrastructure assets (net)		1,512,484				1,512,484		
Construction in progress		104,629	-		_	104,629		
Total non-current assets	\$.	5,759,286	\$_	8,105	\$ _	5,767,391		
Total assets	\$	6,532,914	\$_	57,475	\$_	6,590,389		
Liabilities								
Current liabilities:								
Refunding bonds	\$	19,368	\$		\$	19,368		
Financing obligations		193,920	-		_	193,920		
Total current liabilities	\$	213,288	\$_		\$_	213,288		
Non-current liabilities:						•		
Refunding bonds	\$	206,368	\$		\$	206,368		
Financing obligations		460,561	-		_	460,561		
Total non-current liabilities	\$	666,929	\$_		\$_	666,929		
Total liabilities	\$	880,217	\$_		\$_	880,217		

Adair County Statement of Net Assets - Modified Cash Basis June 30, 2006 (Continued)

		Primary Government							
	_	Govern- mental		Business- type					
Net assets	-	Activities	_	Activities	-	Total			
Invested in capital assets,									
net of related debt	\$	4,974,069	\$	8,105	\$	4,982,174			
Unrestricted	_	678,628	-	49,370		727,998			
Total net assets	\$_	5,652,697	\$_	57,475	\$	5,710,172			

The accompanying notes are an integral part of the financial statements.

Adair County Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2006

Program Revenues

Net (Expenses) Revenues and Changes in Net Assets

			_	Received				. –	Changes in Net Assets						
										Primary Government					
Functions/programs				Charges for		Operating Grants and Contri-		Capital Grants and Contri-		Govern- mental	Business- type				
Reporting entity		Expenses	_	Services	_	butions	_	butions		Activities	Activities_		Totals		
Primary government Governmental activities															
General government	\$	1,253,194	\$	72,630	\$	623,971	\$	94;910	\$	(461,683) \$		\$	(461,683)		
Protection to persons and property		933,660		609,482		71,886		32,000		(220,292)			(220,292)		
General health and sanitation		97,671		4,664						(93,007)			(93,007)		
Social services		1,167								(1,167)			(1,167)		
Recreation and culture		3,627								(3,627)			(3,627)		
Roads		990,772				1,449,501		55,000		513,729			513,729		
Airport		7,700								(7,700)			(7,700)		
Debt service	_	49,978	_		_		-			(49,978)			(49,978)		
Total governmental activities	\$_	3,337,769	\$_	686,776	\$_	2,145,358	. \$_	181,910	. \$ _	(323,725) \$		_ \$ _	(323,725)		
Business-type activities															
Jail Canteen	_	213,051	\$_	41,164	\$ _		. \$ _		. \$_	\$	(171,887)	<u>)</u> \$ _	(171,887)		
Total business-type activities	\$_	213,051	. \$ _	41,164	\$_		. \$_		. \$_	\$	(171,887)) \$ _	(171,887)		
Total primary government activities	\$	3,550,820	\$_	727,940	\$_	2,145,358	\$_	181,910	\$_	(323,725) \$	(171,887)) \$ _	(495,612)		

Adair County
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

Net Assets - Ending

	-		Primary Government					
	_	Govern- mental Activities	Business- type Activities	Totals				
General revenues								
Taxes								
Real property taxes	\$	344,969	\$ \$	344,969				
Personal property taxes		84,114		84,114				
Motor vehicle taxes and licenses		93,058		93,058				
In lieu taxes		30,487		30,487				
Other taxes		272,960		272,960				
Excess fees		120,113		120,113				
Unrestricted investment earnings		20,985	672	21,657				
Miscellaneous revenues	-	444,823	160,865	605,688				
Total general revenues	\$_	1,411,509	\$\$	1,573,046				
Change in net assets	\$	1,087,784	\$ (10,350) \$	1,077,434				
Net assets - Beginning	_	4,564,913	67,825	4,632,738				

Net (Expenses) Revenues and Changes in Net Assets

<u>57,475</u> \$

5,710,172

5,652,697 \$

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

Adair County Balance Sheet - Governmental Funds - Modified Cash Basis

June 30, 2006

	_	General Fund		Road Fund		Jail Fund		Local Government Economic Assistance Fund		Non- major Funds		Total Govern- mental Funds
Assets												
Cash and cash equivalents	\$	372,191	- \$ _	151,638	- \$ -	14, <u>421</u>	- \$ -	89,304	. \$	56,634	. \$ _	684,188
Total assets	\$	372,191	* =	151,638	\$ =	14,421	\$	89,304	\$	56,634	. \$ _	684,188
Fund balances												
Unreserved:												
General fund	\$	372,191	\$		\$		\$		\$		\$	372,191
Special revenue funds	_		· -	151,638		14,421		89,304	-	56,634		311,997
Total fund balances	\$	372,191	\$_	151,638	\$_	14,421	\$_	89,304	\$	56,634	\$_	684,188
Total fund balances Amounts reported for governmental activities are different because: Assets held for sale are not financial resou	in the State	ment of Net Ass	sets		э.						\$	684,188
in the governmental funds as a financia										•		89,440
Capital assets used in governmental activity		financial resour	ces									
and therefore are not reported in the fu	nds											6,921,181
Accumulated depreciation	antal antiviti	oo ara nat finan	امنما									(1,266,525)
Construction in progress used in governme resources and therefore are not reported			Ciai									104,630
Liabilities in governmental activities are no												10.,000
Current liabilities due within one year -	participation	n agreements ar										(213,288)
Non-current liabilities due within one ye financing obligations	ar - particip	ation agreemen	ts an	đ								(666,929)
											_	
Net assets of governmental activities		•									\$ =	5,652,697

The accompanying notes are an integral part of the financial statements.

Adair County Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds - Modified Basis

For The Year Ended June 30, 2006

	_	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Non- major Funds	Total Govern- mental Funds
Revenues	•	040.040	•	•	•	477.740.0	704.004
Taxes	\$	616,642 \$ 30,487	\$	\$	\$	177,719 \$	794,361 30,487
In lieu tax payments Excess fees		120,113					120,113
Licenses and permits		12,113			•	50	12,713
Intergovernmental		282,966	1,762,599	641,077	109,944	113,382	2,909,968
Charges for services		202,300	1,102,000	103,210	100,044	110,002	103,210
Miscellaneous		263,428	22,017	36,942	624	109,931	432,942
Interest		8,634	9,769	2,582	819	460	22,264
into occ	-	0,004	<u> </u>				
Total revenues	\$_	1,334,428 \$	1,794,385 \$	<u>783,811</u> \$	111,387_ \$	401,542 \$	4,425,553
Expenditures							
General government	\$	736,094 \$	26,163 \$	\$	23,158 \$	•	819,429
Protection to persons and property		79,484		632,051	2,000	214,528	928,063
General health and sanitation		621	19,784		10,857	354,100	385,362
Social services		2 027			1,167		1,167
Recreation and culture Roads		3,627	1,564,292		47,042		3,627 1,611,334
Airport			1,504,292	•	7,700		7,700
Capital projects		60,000	89,440	67,359	7,700		216,799
Debt service		73,540	55,003	33,103		7,920	169,566
Administration	_	399,761	64,660	149,497	8,384	48,616	670,918
Total expenditures	\$_	1,353,127 \$	1,819,342 \$	882,010 \$	100,308 \$	659,178 \$	4,813,965
Excess (deficiency) of revenues over							
expenditures before other financing	_						
sources (uses)	\$ _	(18,699) \$	(24,957) \$	(98,199) \$	11,079\$	(257,636) \$	(388,412)
Other financing sources (uses)							
Financing obligations	\$	60,000 \$	95,000 \$	\$	\$	\$	155,000
Transfers from other funds			25,000	55,000		249,964	329,964
Transfers to other funds	-	(329,964)					(329,964)
Total other financing sources (uses)	\$ _	(269,964) \$	120,000 \$	55,000 \$	\$	\$	155,000
Net change in fund balances	\$	(288,663) \$	95,043 \$	(43,199) \$	11,079 \$	(7,672) \$	(233,412)
Fund balances - Beginning	_	660,854	56,595	57,620	78,225	64,306	917,600
Fund balances - Ending	\$ _	372,191 \$	151,638 \$		89,304 \$	56,634 \$	684,188

The accompanying notes are an integral part of the financial statements.

Adair County

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net change in fund balances - Total governmental funds	\$ (233,412)
Asset held for resale is recognized by the governmental funds as an expenditure and in the Statement of Net Assets as an asset.	89,440
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlay Depreciation expense Construction in progress	1,329,372 (125,060) 62,856
Governmental funds report money borrowed as an other financing source and debt principal payments as an expenditure. However, in the Statement of Activities, these are excluded. Financing obligation proceeds Financing obligation principal payments Bond principal payments	 (155,000) 101,374 18,214
Change in net assets of governmental activities	\$ 1.087.784

PROPRIETARY FUND FINANCIAL STATEMENTS

Adair County Statement of Fund Net Assets - Proprietary Fund - Modified Cash Basis

June 30, 2006

		Business- type Activities - Enterprise Fund	
		Jail Canteen Fund	
Assets		•	
Current assets:	•	40.000	
Cash and cash equivalents	\$.	49,370	
Total current assets	\$.	49,370	
Non-current assets:			
Capital assets (net) -			
Other equipment	\$	8,105	
Total non-current assets	\$.	8,105	
Total assets	\$	57,475	
Net assets			
Invested in capital assets, net of related debt	\$	8,105	
Unrestricted	*	49,370	
J.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	•	,.,	
Total net assets	\$	57,475	

The accompanying notes are an integral part of the financial statements.

Adair County Statement of Revenues, Expenses and Changes n Fund Net Assets Proprietary Fund - Modified Cash Basis

For the Year Ended June 30, 2006

	Business- type	
	Ad	ctivities -
	Enter	prise Funds
	Jail	
	(Canteen
		Fund
Operating revenues		
Canteen receipts	\$	41,164
Total operating revenues	\$	41,164
Operating expenses		
Cost of sales	\$	47,966
Educational and recreational		1,443
Depreciation		1,298
Miscellaneous		25,315
Total operating expenses	\$	76,022
Operating income (loss)	\$	(34,858)
Non-operating revenues (expenses)		
Interest income	\$	672
Inmate pay from state		2,271
Inmate deposits		155,960
Other receipts		2,634
Inmate pay		(77,214)
Inmate refunds		(59,815)
Total nonoperating revenues (expenses)	\$	24,508
Change in net assets	\$	(10,350)
Total net assets -Beginning		67,825
Total net assets - Ending	\$	57,475

The accompanying notes are an integral part of the financial statements.

Adair County Statement of Cash Flows Proprietary Fund - Modified Cash Basis

For the Year Ended June 30, 2006

	Business- type Activities - Enterprise Funds Jail Canteen Fund	
Cash flows from operating activities Receipts from customers Cost of sales Educational and recreational Miscellaneous	\$	41,164 (47,966) (1,443) (25,315)
Net cash provided (used) by operating activities	\$	(33,560)
Cash flows from noncapital financing activities Inmate pay from state Inmate deposits Other pay Inmate pay Inmate refunds on accounts	\$	2,271 155,960 2,634 (77,214) (59,815)
Net cash provided (used) by noncapital financing activities	\$	23,836
Cash flows from investing activities Interest earned	\$	672
Net cash provided (used) by investing activities	\$	672
Net increase (decrease) in cash and cash equivalents	\$	(9,052)
Cash and cash equivalents - Beginning		58,422
Cash and cash equivalents - Ending	\$	49,370

Adair County
Statement of Cash Flows Proprietary Fund - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

	Ac	Business- type Activities - Enterprise Funds	
	Jail Canteen Fund		
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$	(34,858)	
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	·	(= 1,000)	
Depreciation expense		1,298	
Net cash provided (used) by operating activities	\$	(33,560)	

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Adair County Notes to the Financial Statements For the Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital and infrastructure assets; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Adair County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Adair County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Adair County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements, which can be obtained from their respective administrative offices, are issued separately and individually. These financial statements are not required to be included in the financial statements of Adair County, Kentucky.

Adair County has the following elected officials:

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions and; 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection to persons and property, social services, and general health and sanitation expenditures.

The primary government also reports the following non-major governmental funds: Forest Fire Protection Fund, Recycling Fund, Enhanced 911 Fund, Sheriff Vehicle Fund, and Green River Animal Shelter Fund.

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forest Fire Protection Fund, Recycling Fund, Enhanced 911 Fund, Sheriff Vehicle Fund and Green River Animal Shelter Fund are classified as *Special Revenue Funds*. Special Revenue Funds account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The Canteen operations are authorized by KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposit and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240 (4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

The Adair County Fiscal Court established the following capitalization thresholds and useful lives for its capital assets:

		talization reshold	Useful Life <u>Years</u>
Infrastructure	\$	20,000	10 – 50
Land improvements		12,500	10 = 60
Buildings and improvements		25,000	10 – 75
Venicles		2,500	3 = 25
Machinery and equipment		2,500	3 – 25

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" represents purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Westlake Regional Hospital is considered a related organization of the Adair County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. To be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, which is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and the approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 8, 2005, \$651,495 of the County's deposits were uninsured and unsecured.

B. Investments

As of June 30, 2006, the County had the following investments included in cash and cash equivalents:

Investments	Maturity	Fair Value (Cost)
Certificate of Deposit	Greater than 90 days	\$ 130,800

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposits are not subject to interest rate risk.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk (Continued)

obligations of any corporation of the United States Government; certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency; bankers acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and securities issued by a state or local government, or any instrumentality or agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statue shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the four specifically named investments as outlined in KRS 66.480 (2) (a.) The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk - Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The certificate of deposit is part of the custodial credit risk disclosure for deposits.

Note 3. Capital Assets

Capital asset activity for the year ending June 30, 2006 was as follows for the primary government:

Governmental Activities

Assets		Beginning Balance	<u>Increase</u>		<u>Decrease</u>		Ending Balance
Land	\$	955,000	\$ 118,596	\$		\$	1,073,596
Buildings:		2,970,216	380,876				3,351,092
Vehicles and equipmen	t	251,440	117,114				368,554
Other equipment		399,744	172,247				571,991
Infrastructure		1,015,409	540,539				1,555,948
Construction In progress		41,774	7/104,630		41,774		104,630
Total capital assets	\$	5,633,583	\$ 1,434,002	\$	41,774	\$	7,025,811
Less: Accumulated depreciation		1 141 465	125,060				1,266,525
Net capital assets, June 30, 2006	\$	4,492,118	\$ 1,308,942	\$	41,774	\$	5,759,286
Depreciation expense wa	,		 			. Ψ	
						i prano	
General government		reneral de la companya de la company La companya de la co		1.0		\$	53,049
Protections to persons	and propert	ty					34,616
General health and san	itation						1,770
Roads							35,625
Total						\$	125,060

Note 3. Capital Assets (Continued)

Business-type Activities

<u>Assets</u>		ginning alance	Increase	<u>Decrease</u>	Ending Balance
Other equipment	\$	11,464 \$	\$	\$	11,464
Less Accumulated depreciation		2,061	11.298		3,359
Net capital assets June 30, 2006	\$	9,403 \$	(1,298) \$	\$	8,105
Depreciation expense w	as charged to	business-type	activities as follows:		

Note 4. Long-term Debt

A. Refunding Bonds - Participation Agreement

Jail Canteen

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,376 of revenue bonds at various interest rates (7.10 percent through 10.625 percent), of which the county agreed to pay \$486,577 and a proportional share of interest. In October 2004, the KLCFCA refunded these revenue bonds. As a result, the County entered into a Second Amendment to Lease and Participation Agreement as of October 1, 2004 with the Authority in order to provide for the reduction of the County's rental payments due under the lease with respect to the project consequent to the issuance of the refunding bonds. On September 29, 2004, these bonds were refunded in the amount of \$243,950 at an interest rate of 6.34%. Refunding bonds outstanding at June 30, 2006 are \$225,736.

Note 4. Long-term Debt (Continued)

A. Refunding Bonds - Participation Agreement (Continued)

Future bond principal and interest requirements are:

Fiscal Year Ended June 30	化电影性的 化多位性原则 化二氯化物医二氯	neduled terest	Scheduled Principal
2007 2008	\$	13,698 \$	19,368 20,597
2009		11,084 9,650	21,903 23,292
2011 - 2015		8,127 15,247	24,769 115,807
Total	\$	70,237 \$	225,736

B. Financing Obligations

The county entered into the following capital lease agreements:

Financing Obligation - Courthouse Annex Building

In January 1992, Adair County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) to finance the purchase of land and the construction of a courthouse annex building. The agreement requires 240 monthly payments and an annual principal amount, to be paid in full January 2012. The principal balance outstanding at June 30, 2006 was \$274,000.

Note 4. Long-term Debt (Continued)

B. Financing Obligations (Continued)

<u>Financing Obligation – Courthouse Annex Building</u> (Continued)

Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	经决定 医原状性神经病 医结合性皮肤丛	heduled <u>nterest</u>	AT 2000年 1000年 日本語 1000年 1	duled cipal
2008	\$	16,513 13,893		40,000 42,000
2009 2010		11,144		44,000 47,000
2011 2012 <u>4</u>		5,171 1,944		49,000 52,000
Total	\$	56,905	\$2	274,000

Financing Obligation - Road Paving

In October 2001, Adair County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) to finance a road-paving project. The agreement requires 120 monthly payments and will be paid in full November 20, 2011. The principal balance outstanding at June 30, 2006 was \$175,481.

Note 4. Long-term Debt (Continued)

B. <u>Financing Obligations</u> (Continued)

Financing Obligation - Road Paving (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30	(4) (2) (2) (3) (3) (3) (4) (4) (4) (4) (4) (4) (4) (4) (4) (4	cheduled <u> </u>	Scheduled Principal
2007	\$	8,229 \$	28,920
2009		6,762 5,207	30,405 31,966
2010		3,576 1,861	33,607 35,332
2012		249	15,251.
Total	\$	25,884 \$	175,481

Financing Obligation - Road Equipment

In February 2005, Adair County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) to finance the purchase of road equipment. The agreement requires 53 monthly payments and will be paid in full July 20, 2009. The principal balance outstanding at June 30, 2006 was \$55,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	establicat interpretation includes the contract	neduled terest	Scheduled Principal
2007 2008	\$	1,482 \$ 953	15,000 15,000
2009		422 32	15,000 10,000
Total	\$	2,889 \$ _	55,000

Note 4. Long-term Debt (Continued)

B. Financing Obligations (Continued)

<u>Financing Obligation – Sheriff Vehicles</u>

In September, 2005, Adair County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for \$60,000 at 3.73% for a period of four years to finance the purchase of four vehicles for the Sheriff. The agreement requires monthly payments of interest and annual payments of principal and will be paid in full January 20, 2010. The principal balance outstanding at June 30, 2006 was \$55,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	cheduled Interest	Scheduled <u>Principal</u>
2007	\$ 1,849	\$ 15,000
2008	1,396	15,000
2009	721	15,000
2010	56	10,000
Total	\$ 4,022	\$55,000

C. Changes in Long-term Debt

Long-term debt activity for the year ended June 30, 2006, for the governmental activities of the primary government was as follows:

ning special section of the section		Beginning Balance	Additions	Reductions	Ending Balance	Due Within <u>One Year</u>
Refunding bonds	\$	243,950	\$	\$ 18,214	\$ 225,736	\$ 19,368
Financing ——— obligations		600,855	60,000	101,374	559,481	98,920
Total	\$	844,805	\$ 60,000	\$ 119,588	\$ 785,217	\$ 118,288

Note 5. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$35,089 in interest on financing obligations and \$14,889 in interest on bonds.

Note 6. Short-term Debt

On March 1, 2006, the Adair County Fiscal Court entered into a lease agreement in the amount of \$95,000 with the Kentucky Area Development District Financing Trust for a truck purchase project to purchase one heavy truck. The truck will be used one year and then will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires one interest payment on September 1, 2006 at an interest rate of 3.75%. The principal balance was \$95,000 as of June 30, 2006.

Fiscal Year Ended June 30		S	neduled nterest	Scheduled <u>Principal</u>
2007	v	\$ [*]	3,922	\$ 95,000
				95 000

Short-term liability activity for the year ended June 30, 2006 follows:

89 (F)	Beginn <u>Balan</u>	ing ce A	dditions	Reductions	Ending Balance
Financing obligations	\$	\$	95,000 \$	\$	95,000
Total	S	5	95,000 : \$	\$	95,000

The fiscal court has recognized the assets purchased with this debt as "assets held for sale" in the amount of \$89,440 on the Statement of Net Assets since the intent is to sell these assets at auction in one year.

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees and hazardous covered employees are required to contribute 5 percent and 8 percent, respectively, of their salaries to the plan. The County's contribution rate for non-hazardous and hazardous employees was 10.98 percent and 25.01 percent, respectively.

Note 7. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Adair County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for the payment of the excess losses.

REQUIRED SUPPLEMENTARY INFORMATION

Adair County Budgetary Comparison Schedules - Major Funds Required Supplementary Information Modified Cash Basis

For the Year Ended June 30, 2006

	General Fund						
	Budgeted Amounts Original Final			Actual Amounts (Budgetary Basis)		Variance With Final Budget Positive (Negative)	
Revenues			_				
Taxes	\$ 542,500	\$	542,500	\$	616,642	\$	74,142
In lieu tax payments	25,200		25,613		30,487		4,874
Excess fees	109,496		109,496		120,113		10,617
Licenses and permits	13,000		13,000		12,158		(842)
Intergovernmental	242,280		337,198		282,966		(54,232)
Charges for services	500		500				(500)
Miscellaneous	163,878		163,878		263,428		99,550
Interest	2,900	•	4,287		8,634	-	4,347
Total revenues	\$ 1,099,754	. \$	1,196,472	\$.	1,334,428	\$_	137,956
Expenditures							
General government	\$ 650,968	\$	650,968	\$	736,094	\$	(85,126)
Protection to persons and							
property	44,558		44,558		79,484		(34,926)
General health and sanitation	700		700		621		79
Social services	500		500				500
Recreation and culture	5,500		5,500		3,627		1,873
Capital projects					60,000		(60,000)
Debt service	64,000		64,000		73,540		(9,540)
Administration	414,528	-	815,040		399,761	-	415,279
Total expenditures	\$ 1,180,754	. \$	1,581,266	\$.	1,353,127	\$_	228,139
Excess (deficiency) of revenues							
over expenditures before other							
financing sources (uses)	\$ (81,000)	. \$	(384,794)	\$.	(18,699)	\$ _	366,095
Other financing sources (uses)							
Financing obligations	\$	\$		\$	60,000	\$	60,000
Transfers from other funds	103,229		103,229				(103,229)
Transfers to other funds	(371,738)	-	(371,738)		(329,964)	-	41,774
Total other financing sources							
(uses)	\$ (268,509)	\$	(268,509)	\$	(269,964)	\$_	(1,455)

		General Fund (Continued)									
	.=	Budgete Original			Actual Amounts (Budgetary Basis)		Variance With Final Budget Positive (Negative)				
Net change in fund balance	\$	(349,509)	\$	(653,303)	\$	(288,663)	\$	364,640			
Fund balance - Beginning	_	349,509		653,303	_	660,854	_	7,551			
Fund balance - Ending	\$ _		\$		\$ _	372,191	\$ _	372,191			
	_	Budgete Original	Roa mounts Final		Actual Amounts (Budgetary Basis)	-	Variance With Final Budget Positive (Negative)				
Revenues Intergovernmental Miscellaneous Interest	\$	1,130,124 10,500 2,500	\$	1,434,075 10,500 3,013	\$	1,762,599 22,017 9,769	\$	328,524 11,517 6,756			
Total revenues	\$_	1,143,124	. \$.	1,447,588	\$.	1,794,385_	\$.	346,797			
Expenditures General government General health and sanitation Roads Capital projects Debt service Administration	\$	58,643 884,730 53,000 176,059	\$	58,643 884,730 53,000 537,118	\$	26,163 19,784 1,564,292 89,440 55,003 64,660	\$	(26,163) 38,859 (679,562) (89,440) (2,003) 472,458			
Total expenditures	\$_	1,172,432	\$.	1,533,491	\$.	1,819,342	\$.	(285,851)			
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$_	(29,308)	. \$.	(85,903)	\$.	(24,957)	\$ _	60,946			
Other financing sources (uses) Financing obligations Transfers from other funds Transfers to other funds	\$	132,538 (103,300)	\$	132,538 (103,300)	\$	95,000 25,000	\$	95,000 (107,538) 103,300			

		Road Fund (Continued)										
	_	Budgete Original	ed A	\mounts Final		Actual Amounts (Budgetary Basis)		Variance With Final Budget Positive (Negative)				
Total other financing sources (uses)	\$_	29,238	\$	29,238	\$.	120,000	\$.	90,762				
Net change in fund balance	\$	(70)	\$	(56,665)	\$	95,043	\$	151,708				
Fund balance - Beginning	_			56,595		56,595						
Fund balance - Ending	\$ =	(70)	\$	(70)	\$.	151,638	\$.	151,708				
	-	Budgete Original		Variance With Final Budget Positive (Negative)								
Revenues	-	Original		Final	•	Basis)	•	(Negative)				
Intergovernmental Charges for services Miscellaneous Interest	\$	597,009 89,500 21,900	\$	615,993 89,500 26,498	\$	641,077 103,210 36,942 2,582	\$	25,084 13,710 10,444 2,582				
Total revenues	\$_	708,409	\$	731,991	\$	783,811	\$.	51,820				
Expenditures Protection to persons and	•	074 700	•	074 500	•	000 07 :	•	00.470				
property General health and sanitation	\$	671,529 1,000	\$	671,529 1,000	\$	632,051	\$	39,478 1,000				
Capital projects Debt service		33 690		33,680		67,359 33,103		(67,359) 577				
Administration	_	33,680 155,440		236,331		149,497		86,834				
Total expenditures	\$_	861,649	\$	942,540	\$	882,010	. \$.	60,530				
Excess (deficiency) of revenues over expenditures before other												
financing sources (uses)	\$_	(153,240)	\$	(210,549)	\$	(98,199)	\$.	112,350				

	Jail Fund (Continued)											
	_	Budgeted Amounts Original Final				Actual Amounts (Budgetary Basis)		Variance With Final Budget Positive (Negative)				
Other financing sources (uses)	_		_		-			<u> </u>				
Transfers from other funds	\$ _	153,240	. \$ _	153,240	\$ _	55,000	\$	(98,240)				
Total other financing sources (uses)	\$_	153,240	. \$ _	153,240	\$ _	55,000	\$	(98,240)				
Net change in fund balance	\$		\$	(57,309)	\$	(43,199)	\$	14,110				
Fund balance - Beginning	_		_	57,309		57,620		311				
Fund balance - Ending	\$ _	···	. \$ _		\$.	14,421	\$	14,421				

		Local Government Economic Assistance Fund										
		Budgete Original	ed Am	nounts Final		Actual Amounts (Budgetary Basis)		Variance With Final Budget Positive (Negative)				
Revenues	_											
Intergovernmental	\$	62,100	\$	95,498	\$	109,944	\$	14,446				
Miscellaneous		500		624		624						
Interest	_	500	. –	500		819		319_				
Total revenues	\$_	63,100	\$_	96,622	\$.	111,387	. \$.	14,765				
Expenditures												
General government	\$	18,879	\$	18,879	\$	23,158	\$	(4,279)				
Protection to persons and												
property		4,300		4,300		2,000		2,300				
General health and sanitation		9,956		9,956		10,857		(901)				
Social services		3,500		3,500		1,167		2,333				
Roads						47,042		(47,042)				
Airport		7,700		7,700		7,700						
Administration	_	38,765		130,512		8,384		122,128				
Total expenditures	\$_	83,100	_ \$ _	174,847	\$.	100,308	\$.	74,539				

	Local Government Economic Assistance Fund (Continued)										
	Budgeted Amounts					Actual Amounts (Budgetary		Variance With Final Budget Positive			
	_	Original	_	Final		Basis)		(Negative)			
Excess (deficiency) of revenues over expenditures before other											
financing sources (uses)	\$_	(20,000)	\$_	(78,225)	\$	11,079	\$_	89,304			
Net change in fund balance	\$	(20,000)	\$	(78,225)	\$	11,079	\$	89,304			
Fund balance - Beginning	_	20,000	_	78,225		78,225					
Fund balance - Ending	\$_		\$_		\$	89,304	\$_	89,304			

Adair County Notes to Required Supplementary Information

For the Year Ended June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. However, Road Fund expenditures exceeded budgeted appropriations by \$285, 851.

OTHER SUPPLEMENTARY INFORMATION

Adair County Combining Balance Sheet - Non-major Governmental Funds Modified Cash Basis Other Supplementary Information

June 30, 2006

		Recycling Fund		Enhanced 911 Fund	Green River Animal Shelter Fund			Total Non-major Funds
Assets								
Cash and cash equivalents	\$	799	\$.	49,167	\$ -	6,668_	\$ -	56,634
Total assets	\$ _	799	\$	49,167	\$ _	6,668	\$ =	56,634
Fund balances								
Unreserved:								
Special revenue funds	\$ _	799	\$.	49,167	\$ _	6,668	\$ -	56,634
Total fund balances	\$ =	799	\$.	49,167	\$ _	6,668	\$ _	56,634

Adair County

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Funds - Modified Cash Basis Other Supplementary Information

For the Year Ended June 30, 2006

	Forest Fire Protection Fund		Recycling Fund	Enhanced 911 Fund		Sheriff Vehicle Fund		Green River Animal Shelter Fund		Total Non-major Funds
Revenues					_				_	
Taxes	\$ 2,056	\$		\$ 175,663	\$		\$		\$	177,719
License and permits			50	04.007		00.000		10.515		50
Intergovernmental				64,867		32,000		16,515		113,382
Miscellaneous			5,071	260				104,600		109,931
Interest				460			•		-	460
Total revenues	\$ 2,056	\$.	5,121	\$ 241,250	\$	32,000	\$	121,115	\$.	401,542
Expenditures										
General government	\$	\$		\$	\$	34,014	\$		\$	34,014
Protection to persons and property	2,586			211,942						214,528
General health and sanitation			30,935					323,165		354,100
Recreation and culture										
Roads										
Airports										
Debt service						7,920				7,920
Administration		-	4,217	42,117				2,282		48,616
Total expenditures	\$ 2,586	\$.	35,152	\$ 254,059	\$	41,934	. \$	325,447	\$.	659,178
Excess (deficiency) of revenues over										
expenditures before other financing										
sources (uses)	\$ (530)	\$	(30,031)	\$ (12,809)	\$	(9,934)	\$	(204,332)	\$	(257,636)
Other financing sources (uses)										
Transfers from other funds	\$ 530	\$.	28,500	\$ 	\$	9,934	\$	211,000	\$ _	249,964
Total other financing sources (uses)	\$ 530	\$.	28,500	\$ 	\$	9,934	\$	211,000	\$ _	249,964
Net change in fund balances	\$	\$	(1,531)	\$ (12,809)	\$		\$	6,668	\$	(7,672)
Fund balances - Beginning				61,976					-	64,306
Fund balances - Ending	\$ 	\$	799	\$ 49,167	\$		\$	6,668	\$	56,634

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

JONES



CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ☐ (859) 269-1949

Honorable Ann Melton, Adair County Judge/Executive Honorable Jerry Vaughan, Former Adair County Judge/Executive Members of the Adair County Fiscal Court

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adair County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 29, 2008. Adair County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results

Honorable Ann Melton, Adair County Judge/Executive
Honorable Jerry Vaughan, Former Adair County Judge/Executive
Members of the Adair County Fiscal Court
Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the
Financial Statements Performed in Accordance with
Government Auditing Standards

Compliance and Other Matters (Continued)

of our tests disclosed an instance of noncompliance or other matter that is required to be reported under <u>Government Auditing Standards</u> and which is described in the accompanying Comment and Recommendation as follows:

2006 – 1 The County Should Budget For All Road Fund Expenditures.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC Certified Public Accountants

April 29, 2008

Adair County Comment and Recommendation

For the Year Ended June 30, 2006

Reference Number 2006 - 1

The County Should Budget For All Road Fund Expenditures

According to KRS 68.300 expenditures should not exceed the amounts budgeted. As of June 30, 2006 the Road Fund expenditures exceeded the amounts budgeted by \$285,851.

Response: We will review and correct this situation.

APPENDIX A

CERTIFICATION OF COMPLIANCE LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM ADAIR COUNTY, KENTUCKY

For The Year Ended June 30, 2006

The Adair County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

County Judge/Executive

County Treasurer